

November 2007

MONEY KUMAR

AND THE MONETARY POLICY!



Financial Education Series



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in



**Hi, I'm Money Kumar.
And I work at the
Reserve Bank of India.
The RBI, you know!**

Learning about The Monetary Policy!

I've got a great job. But people don't know much about what I do. Most think about the RBI as a government organization that's got nothing to do with them. But that's not how it is. Every single thing that I do at the RBI has an impact on the entire country. From the poorest farmer to the richest businessman. As you can guess, it's a very interesting job with many responsibilities. If you want to know more, just sit back, read and enjoy!

In a class, the students try hard to understand.

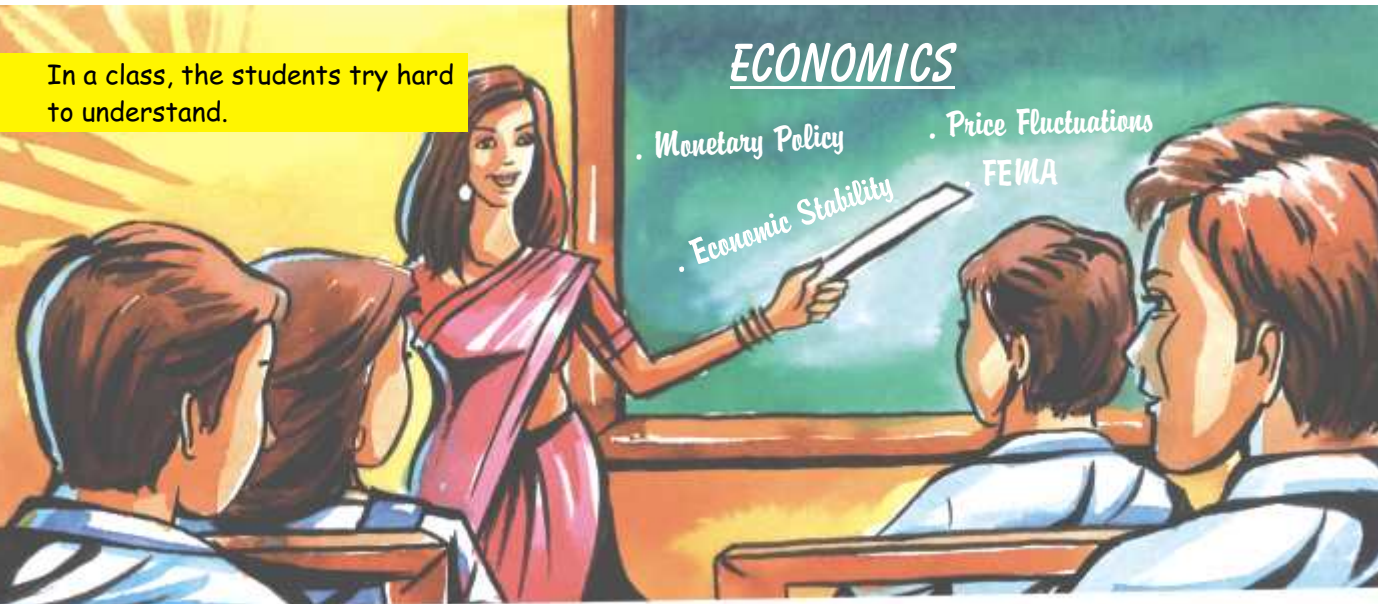
ECONOMICS

Monetary Policy

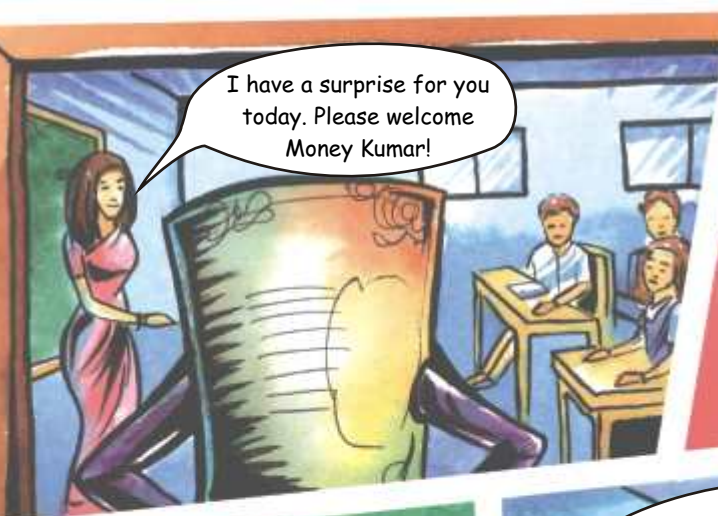
Price Fluctuations

Economic Stability

FEMA



I have a surprise for you today. Please welcome Money Kumar!



Hi everybody!

Welcome, Money Kumar!
I have invited you to explain the Monetary policy to my class.



I've told them about the 3 basic objectives of monetary policy - controlling inflation, encouraging growth & financial stability!



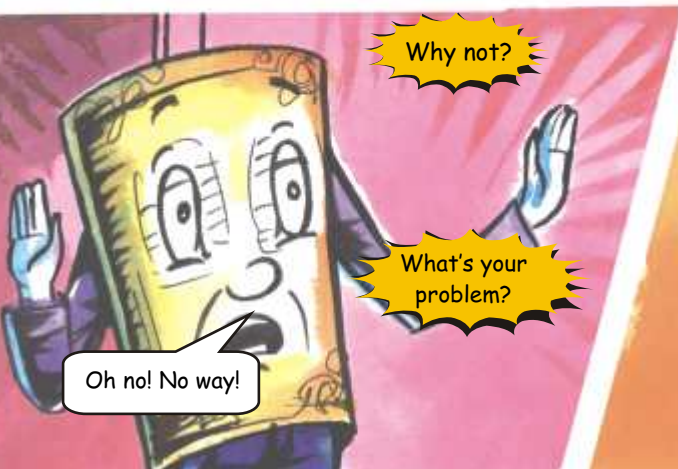
All of this is so complicated. Why can't we just have enough money around for everyone and all would be fine!



Why not?


What's your problem?

Oh no! No way!



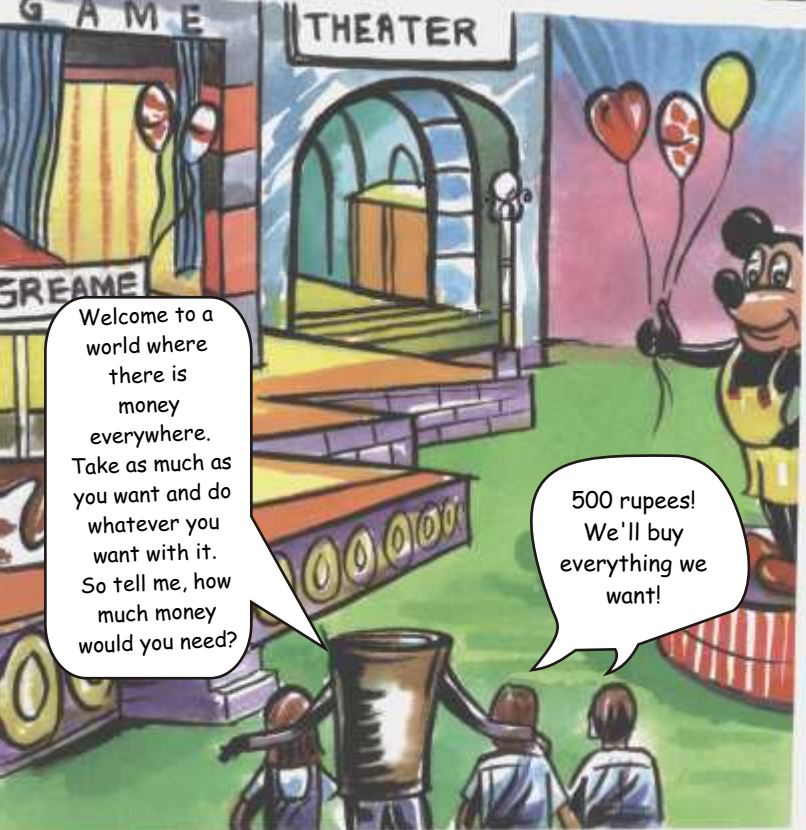
Alright! Alright! So you think if there is enough money around, it would be just fine?





...Let's go for class trip then!

He rolls his hand round in a whirl
and they reach a whole new world!



Welcome to a world where there is money everywhere. Take as much as you want and do whatever you want with it. So tell me, how much money would you need?

500 rupees!
We'll buy everything we want!



Done!



The students enjoy their money

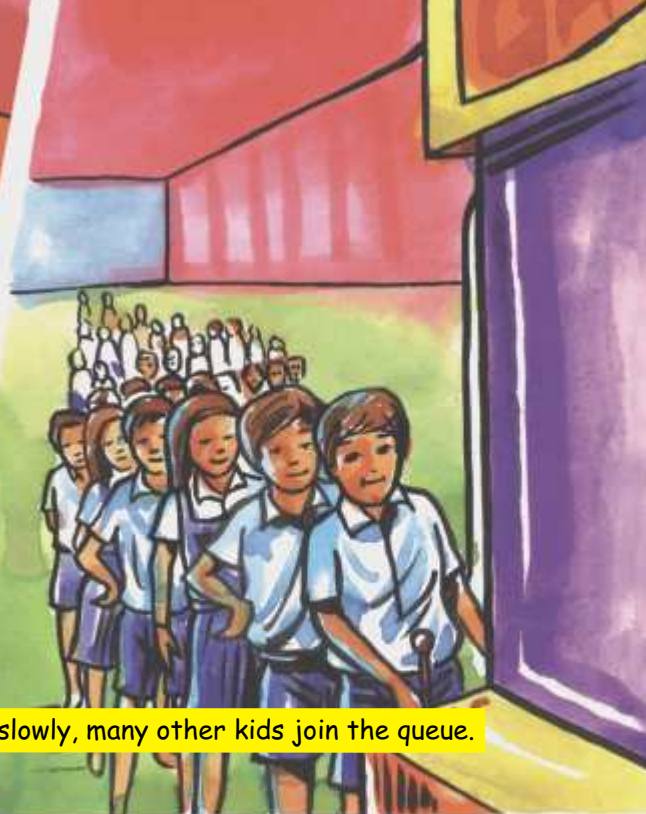


The kids queue up to play games. At Rs. 100 a game, it's very affordable!

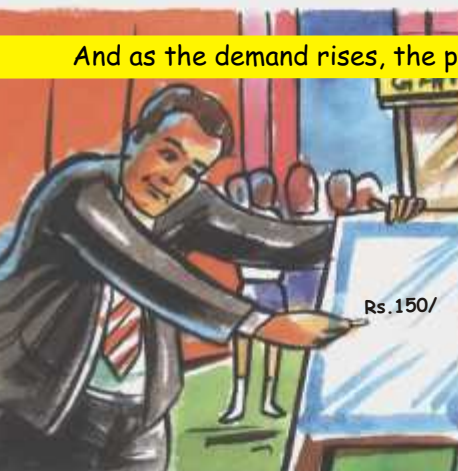


Rs. 100/

But slowly, many other kids join the queue.



And as the demand rises, the price does too...



Rs. 150/



Rs. 200/



Rs. 300/

Some can still afford it. But most can't.

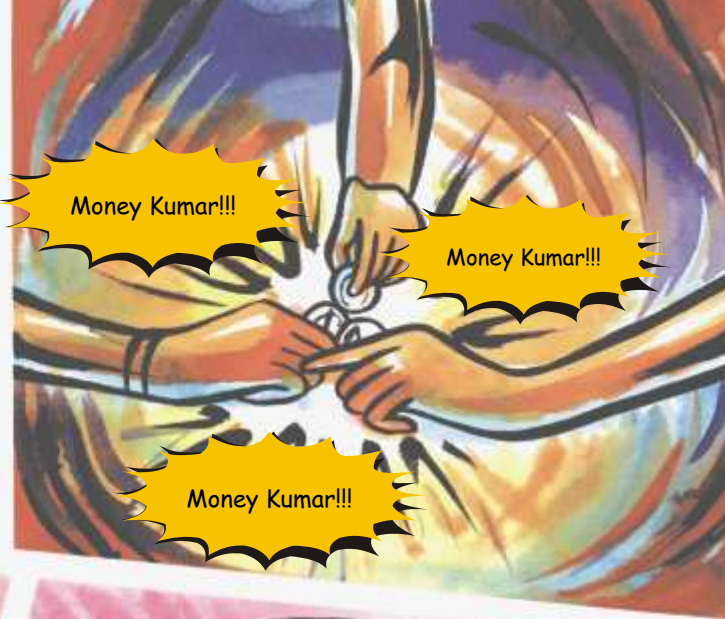


What's the point of having money when we cannot do what we want?

Yes, why can't they have more consoles... so that all of us can play?



But what about the space? There is hardly any space in this room for all of us to stand, where will they keep more consoles anyway?



Money Kumar!!!

Money Kumar!!!

Money Kumar!!!



Why is it that in spite of having loads of money, we cannot afford to do what we want? Why are there not enough things available?

Money Kumar arrives in a flash!



That's what happens when there is a lot of money but fewer goods. It's called **Inflation!**



Inflation!?



When too much money chases too few goods, the prices of goods increase. That's inflation. Though it hurts everybody alike, it hurts the poor the most.

Why's that?



Because, poor people are not protected. They earn their daily livelihood and cannot save enough for a rainy day.



Can you not do anything about it?

Of course I can! Come, I will show you something!

He takes them to his control room at the RBI headquarters.

As he pushes up the interest rates...



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This is what we at the RBI do!

With the increase in the interest rates, the screen shows rupee flow from banks to the market slowing down as money becomes more expensive and people reduce borrowing from banks.

He then also adjusts the other slider so that the excess money from the market gets sucked back into his machine.

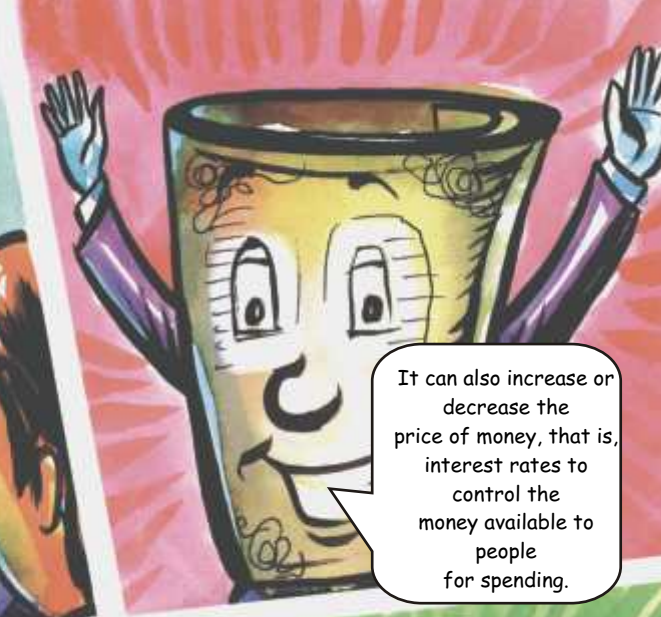
The screen now shows the video-game parlour. The line for the video-game console slowly comes down and so do the ticket prices.

The RBI can't stop the price increases completely. But it can ensure that prices do not move up or down rapidly. This way there is enough time for people to adjust and save enough to take care of their future.

Rs. 100



It maintains **Price Stability** by controlling the money available to people. It can control money by either providing more money or taking away excess money from the banks.



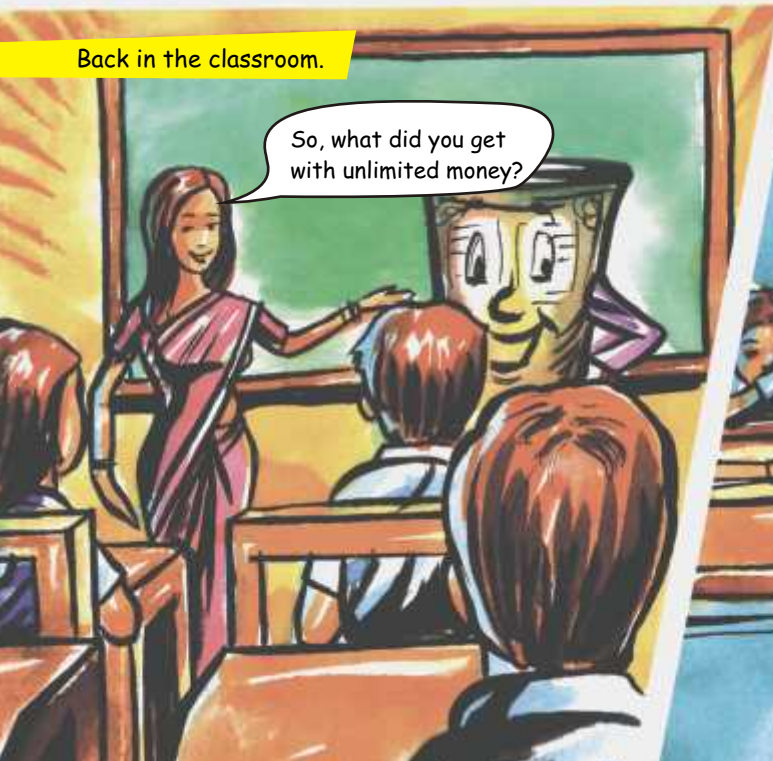
It can also increase or decrease the price of money, that is, interest rates to control the money available to people for spending.



Does it still sound too complicated?



No Money Kumar. We now understand price stability.



Back in the classroom.

So, what did you get with unlimited money?



Unlimited trouble!!!

...and everybody bursts out laughing!!!



So you ensure price stability?

Yes! And by doing it, I ensure that the nation's growth has a steady momentum.



Steady momentum?! Why? What's your problem if India grows by leaps and bounds?



I don't have a problem. But if growth is not steady, it can have severe consequences.

How's that?

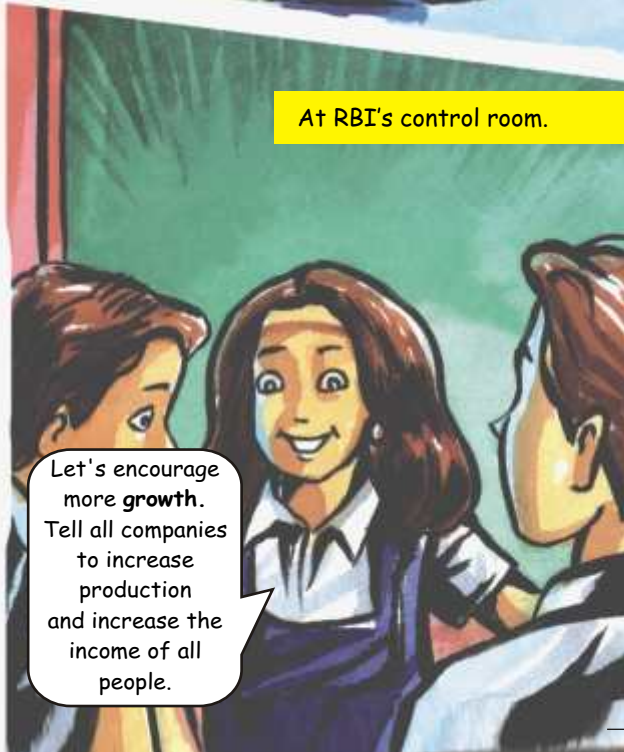


You want to see...?



He rolls his hand in a whirl and they're transported to a new world.

Enter this world where you'll be in charge. Call me if there's trouble.



At RBI's control room.

Let's encourage more **growth**. Tell all companies to increase production and increase the income of all people.

They switch on a button and corporate heads are seen on screen.

Attention ladies and gentlemen! We'd like the country to grow. So please try to increase your production.

But we'll need more resources to do that!

Take as many boxes of resources as you want.

As per their instructions, workers take away as many boxes of resources as they like.

With more resources, factories produce goods in abundance

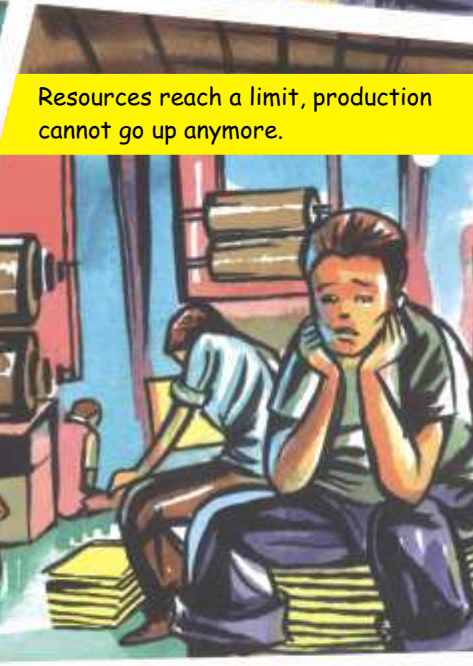
Shops are full of goods and people have lots of money to buy them.



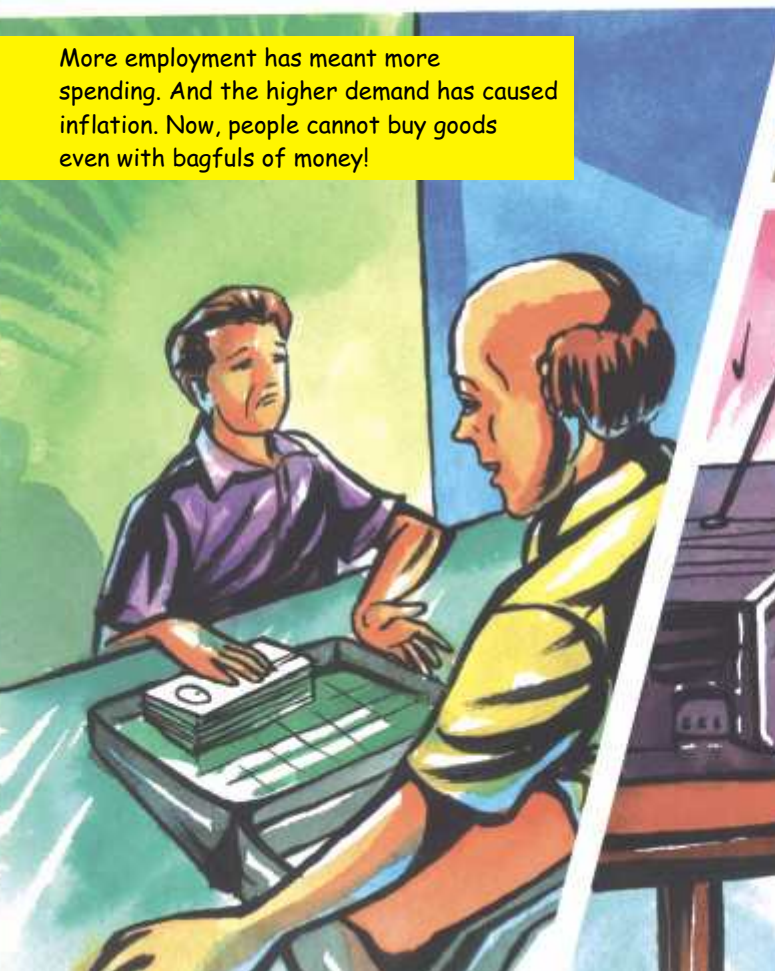
As the students celebrate their success...



...alarms interrupt them. They turn to the main screen to see what it is!



Resources reach a limit, production cannot go up anymore.



More employment has meant more spending. And the higher demand has caused inflation. Now, people cannot buy goods even with bagfuls of money!



Money Kumar is starting to get worried... but he waits to see if the students call him.

Since goods aren't getting sold, factories reduce their production and lay off workers.



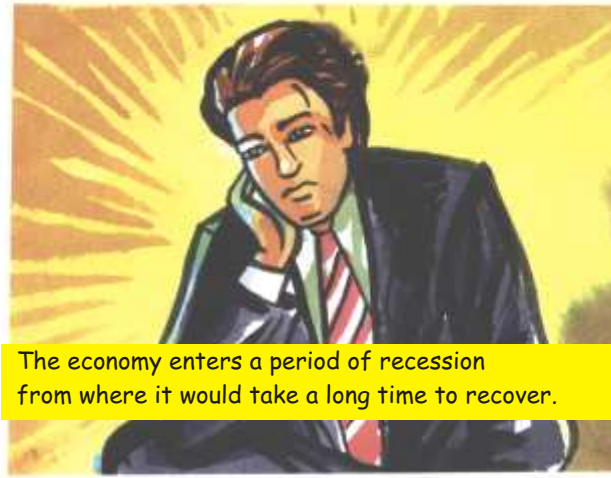
More unemployment means even lesser sales...



...factories are forced to shut down.



The economy enters a period of recession from where it would take a long time to recover.



The situation is out of control!



Things go from bad to worse. People who can't buy things are now rioting and looting.



The students decide they should call Money Kumar.

PLUMMETING GROWTH!!

HIGH UNEMPLOYMENT!!!

Money Kumar!!!

Tsk, tsk, tsklooks like you've created loads of trouble.

I'm sure you can do something about it.

I'm afraid I can't fix things quickly. It'll take some time for the economy to come back to where it was. But the damage that it would do in the meanwhile...Thank God this is not the real world!!!

Let's go back to the real world where RBI keeps a close watch on everything!

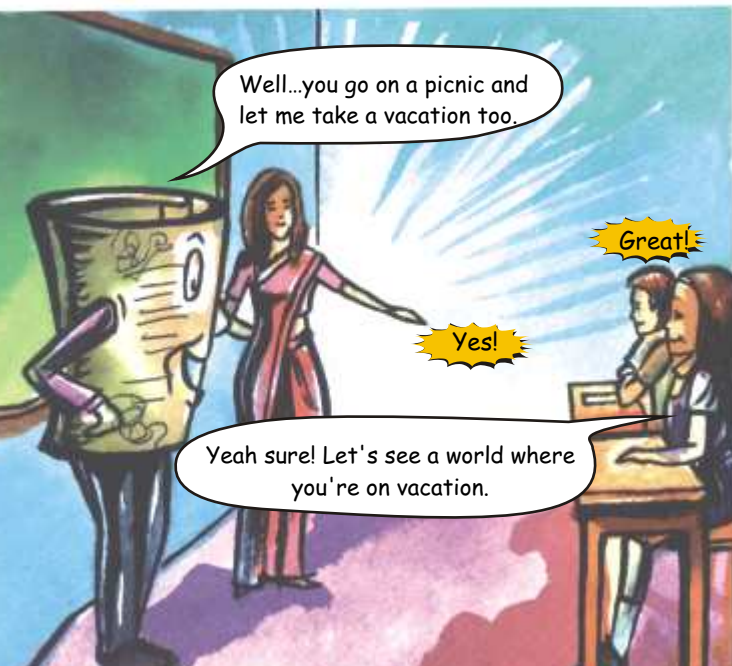
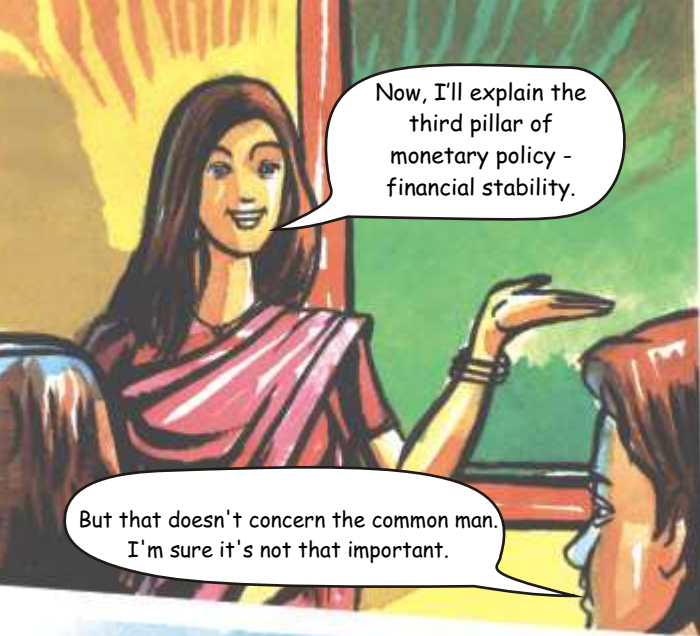
So Money Kumar takes them back to the real world.



You see, at the RBI, we do a lot of things.
You might not deal directly with us.
But we're always dealing with you. Always!



Our policies affect nearly every aspect
of your life. Even though people generally
don't realise it. I do hope that you'll now
appreciate the role of RBI.



Rahul, Tina and Arun are happy to be in their dream world with a bagful of money!



This is too heavy. I think I'm going to leave it with a bank.



So Tina deposits her money in a bank.



Meanwhile, Rahul eyes a beautiful moped.

He wants to buy it, but is short of money.



So he heads to the bank.



I'd like to borrow some money for a moped.



Here! Pay it back with interest.

The bank manager gives Tina's money to Rahul....

He uses the money to buy the moped.



A week later...

Hey! Nice moped Rahul!

Yeah! You should buy one too!



So Tina goes back for her money.

I'd like to withdraw my money.

But I've given your money to someone else. I don't have any...



...And Money Kumar, who usually supplies money when we run out of it, is on vacation.



Tina is disappointed!

And she's not alone...

I'd deposited all my life savings in this bank. Now I'm not getting my money back.

How will I educate my children now?

If I do not get my savings back, how will I get my wife's operation done?

The bank has been failing to recover the loans made by the bank manager.

Tina feels helpless.

People who had come to deposit are discouraged.

Why should I keep my money here? Even I might lose it!

Meanwhile...

Hey! Great Moped!!

Yeah Arun! You should buy one too.

Arun approaches another bank for a loan.



I'd like to borrow some money to buy a moped!



I'm sorry! We don't have money. My borrowers haven't returned the money I expected. And Money Kumar who provides it during such a situation is on vacation.



Arun is disappointed.

And he's not the only one who didn't get a loan.



How am I going to marry my daughter?

I need money to buy a house. How will I buy it now?



Amidst the turmoil Rahul, Tina and Arun meet each other.



Only Money Kumar can solve this.

Money Kumar!!!



Looks like my vacation has had severe consequences.

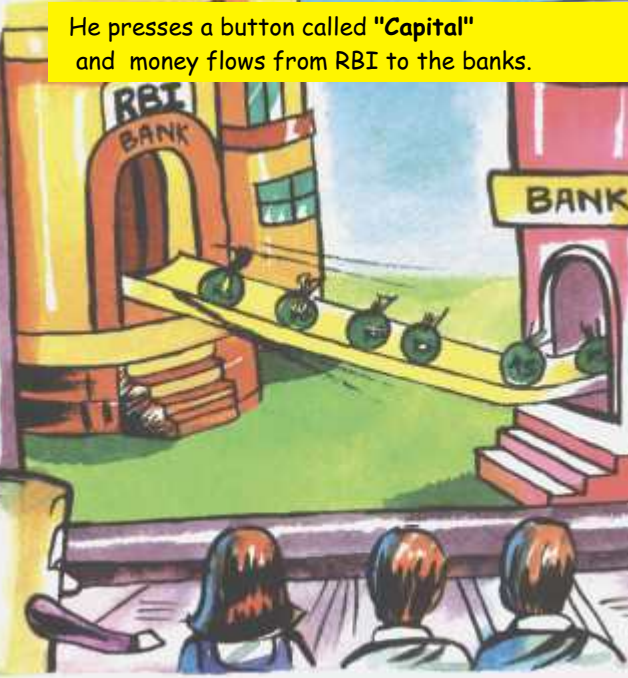


Money Kumar. I don't understand what's happening. What happened to the banks? Isn't there something you can do about it?

Sure, I can!



He takes them to the control room.



He presses a button called "Capital" and money flows from RBI to the banks.



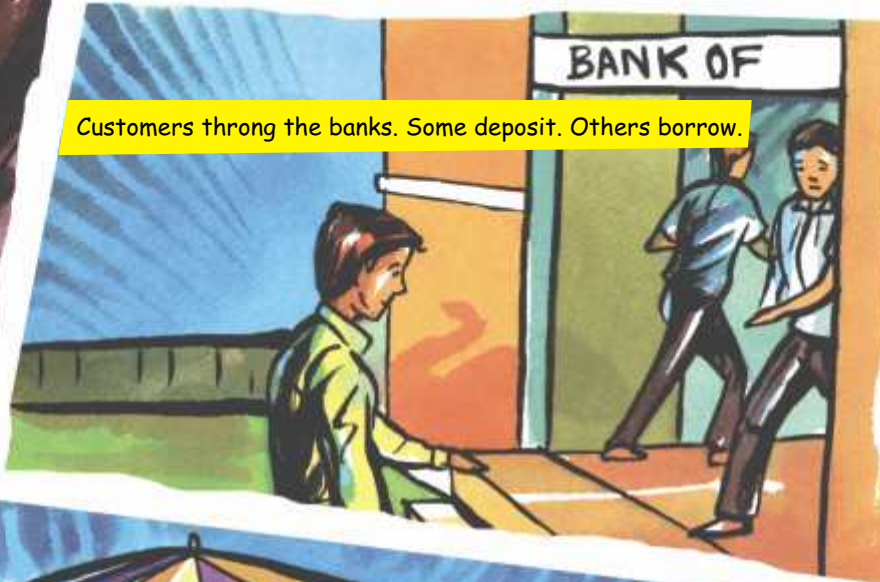
Then he makes some important calls.

Please work onRisk assessment....
.....prudential norms..... capital adequacy...
..... Recover non performing loans.....

The bank manager nods in agreement.



And slowly, the banks become healthy again.



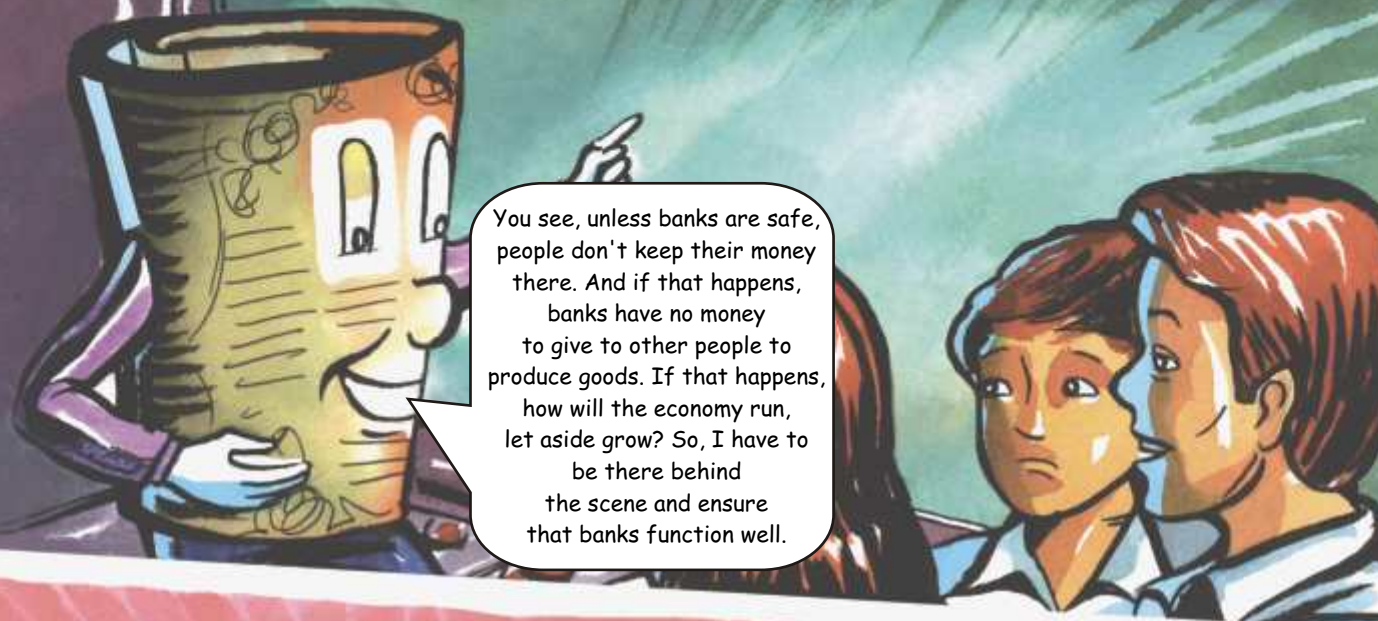
Customers throng the banks. Some deposit. Others borrow.

DEPOSIT INSURANCE



Money Kumar then extends a big protective umbrella called deposit insurance over the banks.

Finally, things get back to normal.



You see, unless banks are safe, people don't keep their money there. And if that happens, banks have no money to give to other people to produce goods. If that happens, how will the economy run, let aside grow? So, I have to be there behind the scene and ensure that banks function well.



Oh, we understand! By ensuring that banks function well, you help to take money from those who have more and give to those who need it. When they return the money, someone else can take it and so on...

Precisely. This can happen only if people trust banks with their money. So that's **financial stability** for you.



Great! So.... what's next?



RBI fact-file!

The Reserve Bank of India was established on April 1, 1935 as per the Reserve Bank of India Act, 1934. The Central Office was initially in Calcutta, but was permanently moved to Mumbai in 1937. Though originally privately owned, it has been fully owned by the Government of India since it was nationalised in 1949.



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